



## Press Release

### ARCL Organics Limited

April 26, 2023

#### Ratings

Instrument Facility /	Amount (Rs. crore)	Rating	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities	6.00	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Revised from IVR BBB-/Positive (IVR Triple B minus with Positive Outlook)	Simple
Short Term Bank Facilities	9.85	IVR A3+ (IVR A Three Plus)	Revised from IVR A3 (IVR A Three)	Simple
<b>Total</b>	<b>15.85</b> <b>(INR Fifteen crore and eighty five lakh only)</b>			

Details of Facilities are in Annexure 1

#### Detailed Rationale

The revision in the ratings assigned to the bank facilities of ARCL Organics Limited (AOL) takes into account healthy growth in its scale of operations in FY22 and in FY23 (provisional) coupled with improvement in its cash accruals and operating cycle leading to improvement in its liquidity. Further, revenue growth momentum is likely to continue in the near-to-medium term driven by recent capacity enhancement for formaldehyde. Besides, the ratings continue to derive comfort from extensive experience of its promoters in the petrochemical industry. The ratings also factor in the company's satisfactory financial risk profile. However, these rating strengths are constrained due to susceptibility of its profitability to volatility in prices of its raw materials, competition from other players and exposure to forex risk.

#### Key Rating Sensitivities:

##### Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Sustenance of the capital structure with improvement in the debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity

##### Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators



## Press Release

- Deterioration in the capital structure with overall gearing above 1.5x and/or interest coverage to below 3x
- Elongation in the operating cycle impacting the liquidity

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

- **Long track record of operations**

The company commenced its operations in 1992 and has a long track of nearly three decades in manufacturing petrochemical products. The long track record has helped the company to establish a healthy relationship with its customers and suppliers.

- **Experienced promoters**

The promoter, Mr. Suraj Ratan Mundra has long track record of managing the business of petrochemical products since last three decades. Before promoting ARCL Organics Limited- Mr Suraj Ratan Mundra promoted Allied Resins & Chemicals Limited in 1983 which was subsequently merged with ARCL Organics Limited in 2011. Currently, Mr. Suraj Ratan Mundra is at the helm of affairs of the company with support from his two sons Mr. Mukesh Mundra and Mr. Rakesh Mundra who have been in the business for the last two decades.

- **Satisfactory financial risk profile**

The financial risk profile of the company remained satisfactory marked by its comfortable leverage ratios with improved cash accruals and satisfactory debt service protection metrics. The overall gearing ratio remained comfortable at 0.35x as on March 31, 2023 (Provisional). Total indebtedness of the company also improved from 1.21x as on March 31,2022 to 0.98x as on March 31,2023. Debt protection metrics as reflected by interest coverage ratio and Total debt to GCA stood comfortable at 8.76 times and 1.11 year respectively in FY23 (Provisional). Infomerics expects the gearing and debt protection metrics of the company to remain comfortable in the medium term.



## Press Release

- **Growth in scale of operations; steady improvement in profit level and cash accruals**

Total operating income in FY22 increased by ~63% on a y-o-y basis to Rs.141.26 crore. It improved further in FY23 (Provisional) by ~17% supported by higher sales volume of formaldehyde & its downstream products. The growth momentum is likely to continue in near-to-medium term driven by recent capacity enhancement for formaldehyde. The company has successfully established a Silver catalyst formaldehyde plant with a capacity of 200 MT per day at a cost of Rs 15 Crore. The plant was commissioned in March 2023 and is producing 150 MT per day. The project was entirely funded through internal accruals. This new plant has enabled the company to replace its oil burning process with steam containing hydrogen and is expected to save cost of ~ Rs 70 Lakhs per month and increase sales by Rs 100 Crore. Further, the company's overall profits as well as cash accruals have consistently improved over the past two years.

### Key Rating Weaknesses

- **Volatility in raw material prices and competition from other players**

The prices of the major raw materials i.e. methanol, phenol are volatile in nature. Any significant upward fluctuations and the inability of the company to pass on the same to its customers will lead to dip in profitability. Further, being in a competitive and fragmented nature of industry limits its bargaining power.

- **Forex risk**

The company is exposed to foreign currency-related risks due to its policy to keep exports unhedged. Exports account for ~35%-45% of the company's total revenue. However, the company keeps its unhedged exposure at a low level. As on March 31, 2023, the unhedged exposure is Nil. Moreover, the major raw material of the company is a crude oil derivative thus susceptible to fluctuations in crude oil prices and forex rates. Also, imports account for 5-10% of total purchase which provides natural hedge and mitigates forex risk to an extent.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)



## Press Release

[Financial Ratios & Interpretation \(Non-financial Sector\)](#)

[Criteria of assigning Rating Outlook](#)

### **Liquidity – Adequate**

The liquidity position of the company is expected to remain satisfactory in the near to medium term marked by adequate cushion in expected accruals as against its repayment obligations. The average working capital limit utilisation remained low at ~6% during the past 11 months ended January 2023 indicating comfortable liquidity buffer. Further, the company has satisfactory gearing headroom on the back of its comfortable capital structure.

### **About the Company**

Incorporated in 1992, ARCL Organics Limited (formerly known as Allied Resins and Chemicals Ltd) is a Kolkata based company engaged in the manufacturing of PF Resin, Formaldehyde and Paraformaldehyde. The products are predominantly used in wood products industry as adhesives and specialty chemical manufacturing. The company has a manufacturing capacity for Amino Powder of 6840 MT, Para Formaldehyde of 5000 MT and Formaldehyde of 96000 MT. Its manufacturing plant is located in Rampur, Maheshtala of West Bengal. The company is recognized as a Star Export House by the Govt. of India and exports its products to more than 40 countries.

### **Financials (Standalone):**

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	141.26	164.69
EBITDA	15.36	19.30
PAT	10.48	15.38
Total Debt	15.73	20.19
Tangible Net worth	41.56	56.96
EBITDA Margin (%)	10.87	11.72
PAT Margin (%)	7.30	9.15
Overall Gearing Ratio (x)	0.38	0.35

*\*Classification as per Infomerics' Standard*

**Status of non-cooperation with previous CRA: Nil**

**Any other information: Nil**

**Rating History for last three years:**

Sr. No.	Name of Instrument/Facili	Current Ratings (Year 2023-24)	Rating History for the past 3 years



## Press Release

	ties	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Long Term Bank Facilities- Cash Credit	Long Term	6.00*	IVR BBB/ Stable Outlook	-	IVR BBB-/ Positive Outlook (Jan 31, 2022)	IVR BBB-/ Stable Outlook (December 17, 2020)
2.	Short Term Bank Facilities- LC	Short Term	9.85^	IVR A3+	-	IVR A3 (Jan 31, 2022)	IVR A3 (December 17, 2020)

\*Packing credit/Foreign bill discount/bill purchase of Rs. 5 crore are sublimit

^Bank guarantee of Rs. 0.50 crore is a sublimit

### Name and Contact Details of the Rating Analyst:

Name: Mr. Ashish Agarwal	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: <a href="mailto:aagarwal@infomerics.com">aagarwal@infomerics.com</a>	Email: <a href="mailto:apodder@infomerics.com">apodder@infomerics.com</a>

### About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit [www.infomerics.com](http://www.infomerics.com)



## Press Release

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	6.00*	IVR BBB/ Stable Outlook
Short Term Bank Facilities- LC	-	-	-	9.85^	IVR A3+

\*Packing credit/Foreign bill discount/bill purchase of Rs. 5 crore are sublimit

^Bank guarantee of Rs. 0.50 crore is a sublimit

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable.**

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/Len-arcl-apr23.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable**

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).